

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 14, 2014

REGULAR X CONSENT _____ EFFECTIVE DATE October 15, 2014

DATE: October 2, 2014

TO: Public Utility Commission

FROM: Erik Colville 

THROUGH:  Jason Eisdorfer and Aster Adams 

SUBJECT: NORTHWEST NATURAL: (Advice No. 14-7) Adds Schedules 90 and 91 for Firm Storage Service with No-Notice Withdrawal, and Firm Storage Service with No-Notice Withdrawal and Direct Connection to South Mist Pipeline.

STAFF RECOMMENDATION:

Subject to the Schedule 90 Conditions of Approval presented in Attachment 1, Staff recommends that NW Natural's Application for Waiver of Less Than Statutory Notice (LSN) be approved along with its request for approval of Advice No. 14-7 (Schedules 90 and 91), as revised September 26, 2014, to become effective October 15, 2014.

DISCUSSION:

Northwest Natural Gas Company (NWN) filed Advice No. 14-7 on May 21, 2014, proposing to add Schedules 90 and 91 for Firm Storage Service with No-Notice Withdrawal, and Firm Storage Service with No-Notice Withdrawal and Direct Connection to South Mist Pipeline. Supplements A and B were filed September 26, 2014. Supplement A also included an application for an LSN. Supplement C was filed September 30, 2014, and Supplement D was filed October 2, 2014.

The purpose of this filing is to request approval for new intrastate no-notice withdrawal storage service to be made available under two new rate schedules, the availability of which is dependent upon the customer location relative to such customer's access to certain NWN pipeline facilities. The two rate schedules are: Rate Schedule 90 "Firm Storage Service with No-Notice Withdrawal" and Rate Schedule 91 "Firm Storage Service with No-Notice Withdrawal and Direct Connection to South Mist Pipeline." In summary, these rate schedules would provide NWN an ability to deliver a unique

storage service to customers that have agreed to pay all costs associated with the service (including the necessary capital additions). In providing such service, NWN would recover its cost of service, including its authorized cost of capital.

The only customer known at this time is Portland General Electric (PGE). The approval of Schedule 90 by the Public Utility Commission of Oregon (OPUC) is a condition precedent under the terms of a Precedent Agreement between NWN and PGE for service to the Port Westward 2 generating plant. The Precedent Agreement between NWN and PGE documents an agreement that the Schedule 90 Service Agreement with PGE will be for a 30-year initial term, with three unilateral elective 10-year extensions. In the case of PGE, the new Non-Core Mist Storage facilities to be constructed are known as the North Mist expansion. In the interim before the North Mist expansion is operational, NWN will provide PGE with no-notice storage service utilizing existing Mist storage capacity and deliverability.

The North Mist expansion proposed to serve PGE will not be shared with or used by core ratepayers. NWN notes that:

- Revenues are not subject to sharing under Schedule 185 (optimization revenue sharing); and
- The new storage capacity built in order to serve PGE is not subject to recall for core ratepayer use.

NWN's analysis supporting its 2014 Integrated Resource Plan (IRP) shows that an additional build-out of storage capacity at North Mist for core ratepayers is a component of the least cost portfolio in all future scenarios, although the timing of that build-out varies significantly by scenario. The earliest date on which expanded capacity would be needed from North Mist for core ratepayers would be 2020. The expansion proposed for PGE in the North Mist Field will involve only a portion of the available resources. If North Mist's Adams reservoir is built out for PGE under this tariff, sufficient capacity remains in the other reservoirs that can be built out to meet forecast requirements for core ratepayers. The possibility for core ratepayer need in the future for storage capacity at North Mist is a driver for the Schedule 90 Conditions of Approval discussed below and presented in Attachment 1.

Utility Service

Staff considered in its evaluation of this filing is that of delineating what may be considered a utility service. This matter is addressed in the OPUC enabling statutes and case precedent. These statutes and case precedent support the conclusion that no-

notice storage service falls within the definition of utility service. ORS 756.010(8) provides that the term "service" "is used in its broadest and most inclusive sense and includes equipment and facilities related to providing the service or the product served." In the instance of PGE as the initial customer for Schedule 90 service, PGE will be an industrial customer, located within NWN's service territory, purchasing gas storage and transportation services to power its Port Westward 2 plant. As such, the offering of no-notice storage service falls well within this broad definition. Staff concludes that Schedules 90 and 91 may be offered as utility services.

Staff's Review Criteria

Criteria Staff considered in reviewing and recommending whether or not to approve NWN's request to provide no-notice storage service include:

- a. Are the tariffs structured to apply to all qualified customers?
- b. Do the rates proposed cover the costs for offering the service or is it a subsidized rate?
- c. Is there a net benefit to other ratepayers?

Staff's Analysis

Staff's review of the no-notice storage service tariff filings included the filings themselves, the cost of service approach, and the revised tariff pages filed in response to Staff and other party input. Staff did not explore alternative no-notice storage service approaches because NWN's filing asks for approval of a specific approach. Staff's analysis of the review criteria is as follows:

- a. Are the tariffs structured to apply to all qualified customers?*

In OPUC Data Request 4 Staff requested that NWN provide support for the Storage Charge/Formula Rate in Schedule 90 and the rates in Schedule 91. Staff's findings from review of NWN's data request response follow.

Schedule 90

The formula rate included in Schedule 90's Service Agreement uses the standard total cost of service formula approach used by utilities for rate making purposes (revenue requirement and cost of service studies). As a result, Staff concludes the Storage

Charge/Formula Rate is applicable to all similarly situated customers and qualified customers.

Schedule 91

The Schedule 91 rate structure is identical to the rate structure for Schedule 80 Firm Storage Service,¹ with the exception of a provision for adjusting the maximum stated charges if the requested service requires NWN to make additional facilities investments. In this case, NWN will require that the requesting customer pay the full cost of any such investment. As a result, customers that do not request additional storage facility investments will all be covered by the proposed rates. Customers requesting additional storage facility investments will also all be covered by the proposed rates, with additional charges to pay the full cost of any such investments.

Staff was concerned with the provision included on page 1 of the tariff related to new storage capacity development. There was no detailed structure presented in the filing for the terms of a binding agreement for Mist expansion, or how the rate would be structured to ensure core ratepayers do not subsidize a Mist expansion. Having no specific binding agreement terms or rate structure would leave Staff with nothing specific to review or the Commission to approve. To avoid attempting to structure in this tariff how a possible future storage capacity development might occur, Staff recommended and NWN agreed to include in its revised Schedule 91 tariff filing, that new storage capacity development is subject to Commission approval before offering the service.

Staff concludes the Schedule 91 tariff, as revised, applies to all similarly situated and qualified customers. For those customers requesting additional storage capacity development, NWN will seek Commission approval before offering the service.

b. Do the rates proposed cover the costs for offering the service or is it a subsidized rate?

A key consideration in answering this question is to analyze the rates proposed by NWN, given that the rate schedules are for an "above-the-line" service.² The answer to this question involves a comparison of NWN incremental costs associated with these services as compared to the revenues received. A rate is subsidized if the rate does

¹ NWN Advice No. 14-4 Schedule 80 Firm Storage Service, dated February 28, 2014, identified that Schedule 80 first went into effect on November 23, 2005, on an experimental basis.

² "Above-the-line" is understood by Staff to mean that the service is provided under NWN's regulated tariffs and utilizes the financial assets, plant, and human resources with which it provides other tariff-based services.

not fully recover the incremental costs associated with the service. In OPUC Data Request 4, Staff requested NWN to provide support for the Storage Charge/Formula Rate in Schedule 90 and the rates in Schedule 91. Staff's findings from review of NWN's data request response follow.

Schedule 90

As the tariff is structured Schedule 90 customers will be billed a monthly per dekatherm (Dth) storage charge and a monthly actual fuel use charge.

The formula rate included in Schedule 90's Service Agreement uses the standard total cost of service formula approach used by utilities for rate making purposes (revenue requirement and cost of service studies). The formula matches all of the costs of Schedule 90 to their revenue requirement. Customers who take service under Schedule 90 will pay their proportional share of the cost of service; therefore, it is intended that the total capital, administrative and general, and operation and maintenance expenses of the North Mist expansion will be passed onto customers of Schedule 90 only and will not be allocated to core utility ratepayers.

While the Storage Charge/Formula Rate uses the standard total cost of service formula approach used in ratemaking Staff and parties were concerned that all applicable service offering development, operation and maintenance expenses, and administrative and general expenses were not captured in the formula "G" factors. In response to these concerns, NWN expanded the description of the formula "G" factors to specifically identify the categories of expenses included, and added a formula "G4" factor to capture prudently incurred expenses that are not allocable to pipeline, compressor, or reservoir cost elements. The need for relative certainty that all applicable expenses will be captured in the formula rate is a driver for the Schedule 90 Conditions of Approval discussed below and presented in Attachment 1.

Staff concludes that with the additions related to the formula "G" factors, and the Schedule 90 Conditions of Approval, the Schedule 90 Storage Charge/Formula Rate will cover the costs for offering the service and it will not be subsidized by other ratepayers.

Schedule 91

As the tariff is structured Schedule 91 customers will be billed a monthly per Dth charge for deliverability reservation, capacity, and overrun. In addition, the customer will be billed monthly for monthly actual fuel use.

The rate structure proposed for Schedule 91 is intended to be the FERC approved rates adopted for Schedule 80 Firm Storage Service. After filing the proposed Schedule 91, NWN became aware that, as proposed, Schedule 91 did not reflect the updated February 11, 2014, FERC approved rates that are shown in Schedule 80.³ A revised filing of the Schedule 91 tariff by NWN corrected this discrepancy.

The Schedule 91 rate structure is identical to the rate structure for Schedule 80 service, with the exception of a provision for adjusting the maximum stated charges if the requested service requires NWN to undertake additional storage capacity development. In this case, NWN will require that the requesting customer pay the full cost of any such development, and obtain Commission approval for the new storage capacity development before offering the service.

Staff concludes that Schedule 91 rates cover the costs for offering the service and avoid subsidies from other ratepayers to the same extent as Schedule 80 rates do. Staff's finding hinged upon NWN's revision to the Schedule 91 tariff filing that new storage capacity development must be brought to the Commission for approval before the service is offered.

c. Is there a net benefit to other ratepayers?

NWN's proposed no-notice storage service could be offered as either a utility service or an unregulated service. Because NWN proposes to offer the service as an "above-the-line" service, other ratepayers must not only be protected from the service offerings, but must also receive a net benefit from the services.

Staff and NWN (in its response to OPUC Data Request 9) identified the following net benefits to other ratepayers from the proposed Schedule 90 and Schedule 91 services:

- Certain of NWN's overhead costs of constructing capital projects will be recoverable from Schedule 90 customers, through an allocation of construction overhead costs to the capital investments made to provide the service. This relieves other ratepayers from bearing costs that otherwise would be allocated to other utility projects, but are now in part allocated to the capital costs paid specifically by the Schedule 90 customer;
- Schedule 91 service will generate revenues that will be shared with other ratepayers through Schedule 185 (optimization revenue sharing), providing a net benefit to those other ratepayers;

³ See NWN OPUC Advice 14-4 dated February 28, 2014, approving Rate Schedule 80 revisions effective April 1, 2014.

- Schedules 90 and 91 will create the potential for new large retail customers using certain NWN pipeline facilities thus diluting system fixed costs and providing a net benefit for other ratepayers;
- Schedules 90 and 91 benefit gas-electric utility coordination thereby allowing for more efficient utilization of resources which results in a net benefit to other ratepayers; and
- PGE's customers (many of whom are also NWN customers) will benefit by PGE being able to take advantage of a unique no-notice service for supplying generation to balance loads, at minimum cost.

Staff finds that Schedule 90 and 91 will provide net benefits to other ratepayers.

Schedule 90 Conditions of Approval

Since NWN filed Advice No. 14-7, several meetings between NWN, Staff, Citizens' Utility Board of Oregon and Northwest Industrial Gas Users were held to identify and discuss concerns raised by the filing. Ultimately, the parties' concerns fell into two general categories: (1) The parties wanted to be sure that Schedule 90 customers will bear all costs—both direct and indirect—incurred by NWN to deliver Schedule 90 service; and (2) The parties wanted assurance that NWN core ratepayers have not paid for the assets that will be used to provide Schedule 90 service, and that if they have, ratepayers be adequately compensated for the use of those assets to provide Schedule 90 service.

Through discussions and discovery around these concerns, NWN made or confirmed a number of commitments to the parties regarding Schedule 90 service. To ensure that these commitments are enforceable by the Commission, NWN requested that these commitments be made a part of any Commission order approving Schedule 90 in the form of conditions. The conditions are presented in Attachment 1.

Conclusion

Staff identified three potential paths for going forward:

1. Approve the no-notice storage service tariff filing, as revised by NWN on September 26, 2014;

2. Suspend the no-notice storage service tariff filing and open a brief, focused investigation; or
3. Suspend the no-notice storage service tariff filing and open a contested case docket.

The proposed no-notice storage service falls well within the broad statutory definition. Staff concludes that NWN should be allowed to provide no-notice storage service as a regulated utility service.

Staff finds that Schedule 91 compliments Schedule 90 by providing similar no-notice storage service to customers in the southern portion of the NWN service territory that Schedule 90 provides to those in the northern portion. This insures that these services will be offered to all similarly situated customers of NWN. In addition, offering no-notice storage service is generally seen as a net benefit to ratepayers. Also, Staff's analysis and the discussion above show the proposed no-notice storage service tariff satisfies reasonable regulatory criteria. Therefore, Staff concludes that NWN Advice No. 14-7 for no-notice storage services should be approved as revised September 26, 2014.

PROPOSED COMMISSION MOTION:

Subject to the Schedule 90 Conditions of Approval presented in Attachment 1, NW Natural's application for an LSN be approved along with its request for approval of Advice No. 14-7 (Schedules 90 and 91), as revised September 26, 2014, to become effective October 15, 2014.

Advice No. 14-7 Staff Report

Attachment 1

Schedule 90 Conditions of Approval

Cost Recovery

1. As an overarching principle, NWN is committed that all direct and indirect costs incurred by the Company to provide Schedule 90 service will be allocated to and recovered from Schedule 90 customers. NWN agrees to work collaboratively with the parties and to be subject to future processes for Staff and stakeholder review of accounting entries and supporting documentation to ensure an appropriate cost allocation.
2. The costs of any utility personnel that work on the planning and construction of the non-Core Mist Storage for the provision of RS 90 service will be charged to the RS 90 customers as provided in the customer's agreement. (With respect to PGE, NWN and PGE have agreed to implement this commitment through allocating such costs to PGE as capital. NWN agrees that there will be a credit provided to core customers to offset the costs that would otherwise be in rates, but which are allocated to PGE. NWN will seek to pass that credit through to customers as a one-time credit when the project goes into service, subject to gaining any necessary approvals of the Commission required to affect the credit).
3. In the event that NWN and the applicable Schedule 90 customer determine that, after Schedule 90 service is initiated, utility resources will be used in any way to provide ongoing service to that Schedule 90 customer, NWN will develop a shared services-type agreement that allocates utility costs to the Schedule 90 customer. NWN commits to providing an opportunity for stakeholders to review and comment on such agreement and raise any concerns to the Commission prior to effectiveness of such services-type agreement.
4. NWN will further clarify the costs that will be recoverable from Schedule 90 customers under the general rate formula contained in the service agreement. Specifically, NWN confirms that operation and maintenance activities such as accounting, financial reporting, customer service, communications and monitoring, control room services and general management are included. NWN is currently working with PGE on an amendment to the service agreement that would capture these elements, and NWN will add them to the generic service agreement filed with the Commission as part of its original filing on Schedule 90.

Core Customer Interests in Assets Used to Provide Schedule 90 Service

5. NWN will make appropriate provisions to compensate non-Schedule 90 customers for any use of assets for which they have paid in providing Schedule 90 service. (With respect to PGE's Schedule 90 service, which will be provided through a development of the Adams Pool at North Mist, NWN has confirmed that all costs associated with the Adams Pool have remained in "Construction Work in Progress," and have not affected rates, with one exception. The one exception is that recoverable gas costs associated with the pool have been included in inventories for general customers, included in rate base, and expensed over time at a calendar Weighted Average Cost of Gas or other average-cost rate as used by customers. NWN proposes to negotiate with PGE for PGE's purchase of any remaining recoverable gas at market prices taking into account the quality and location of the gas, and credit general customers as though it was a sale of a rate base item).
6. NWN will continue, through its IRP process, to refine cost estimates, timing, and least-cost planning related to any future expansion of North Mist reservoirs, other than the Adams reservoir, for non-Schedule 90 customers. NWN recognizes that the Staff and stakeholders retain all of their rights to participate in that process and determine their positions on the issues surrounding future expansion of North Mist for non-Schedule 90 customers, and NWN commits to work collaboratively on those issues.
7. NWN commits that in any future proceeding regarding the review for prudence of any expansion or proposed expansion of Mist for non-Schedule 90 customers, it will provide access to information that is required to perform an analysis of the costs that would have been associated with developing the Adams Pool for non-Schedule 90 customers versus the costs of any other pool that is ultimately developed for non-Schedule 90 customers.
8. NWN's determinations related to the use of the Adams Pool may be raised by any party as an issue during the future prudence review related to any expansion or proposed expansion of Mist for non-Schedule 90 customers. All parties would reserve their rights to take any position in that future proceeding with respect to any such issues raised, including the relevance of the other parties' arguments.